FORTUNECITY.COM INC. - 2005 ANNUAL REPORT

FortuneCity

March 31, 2006

Dear Fellow Shareholders,

The past year remained challenging for FortuneCity.com Inc., however, we believe that the Company has set a course for potential new growth by simplifying and focusing its business.

MyPhotoAlbum, the Company's online photo and video sharing website is becoming recognized within the online photo service sector as having a highly competitive product with one of the most customizable online photo gallery's in the industry and a wide variety of sharing and communication tools. MyPhotoAlbum is currently adding in excess of 15,000 new registrations per month without any advertising expenditures incurred. MyPhotoAlbum has over 175,000 active users that have uploaded more than 20 million photos. The Company currently earns revenue from advertising and sponsorships, photo and greeting card printing services, and subscription based Club memberships for users seeking additional software tools, disk storage and special features. The Company believes that MyPhotoAlbum could be rapidly grown if additional financing or a strategic partner is brought to the business. The Company intends to seek such capital over the coming year.

This past year demonstrated a resurgence of interest in "user-generated content" web properties as evidenced by the high valuations and interest in online social networking websites. The free FortuneCity web space service was a precursor to these services and supports our view that we should continue its' development. The Company intends to continue to seek new ways to exploit the significant internet traffic and advertising impressions generated by the home pages and to seek new services that can efficiently expand the number of visitors to the FortuneCity network of sites.

The Company's decision to sell its paid web hosting asset was motivated by recognizing FortuneCity's limited resources would make it difficult to compete in the increasingly competitive and consolidating shared server hosting market. The Company will earn $1.13 million from the sale of its web hosting customer base. FortuneCity has held the valuable number one rank on Google for the keyword 'web hosting' for more than two years in addition to many other important positions on the leading search engines. The well respected FortuneCity brand name combined with its widespread search engine rankings will allow the Company to continue marketing web hosting services through a marketing agreement that provides in excess of 50% of the hosting revenue during the customer's first year of service. On an annualized basis, the marketing agreement is expected to yield greater net cash flow than prior to the transaction.

In March 2006 FortuneCity sold Ampira GmbH, its wholly owned German subsidiary, as part of its continued effort to focus its business activities in the North American market. The German business had not contributed positive cash flow to the Company for some time.

Revenue for 2005 remained flat over the prior year while the net loss was reduced to $461,000, representing a significant improvement over the prior year and the lowest since the Company's public offering in 1999. The improvement was a result of maintaining revenue while finding new means to operate efficiently.

For the coming year the Company intends to focus on creating value through the photo service offering and by leveraging the significant internet presence of its advertising supported free web services. The Company is in discussions regarding these and other opportunities and strives to report positive progress in the near future.

Yours truly,

Peter Macnee
President and CEO

Jeremy W. Metcalfe
Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

OVERVIEW

FortuneCity.com Inc. and its subsidiaries ("FortuneCity" or the "Company") provide online web services and interactive media sales. The Company provides a variety of online web services to small businesses and individuals that are primarily based in North America. The services are marketed through uniquely branded websites promoting each service and as part of the FortuneCity global web property.

Under the FortuneCity.com brand, the Company offers its original advertising supported free FortuneCity homepage service as well as paid shared server web hosting, email and domain registration services. The Company recently developed MyPhotoAlbum, a personalized online photo and video sharing service. The Company's interactive media sales agency "Ampira Media", with sales staff located in New York and Hamburg, Germany, sells the Company's significant online advertising impressions generated on FortuneCity's web properties including the FortuneCity homepage service, the V3 domain redirect service, MyPhotoAlbum, and HotGames, an online games website.

The Company offers free trial web services across all of its brands as an efficient customer acquisition strategy. All free basic web services produce revenue through the sale of advertising campaigns on the Internet traffic generated by its customers and others viewing the web pages. Users are continually marketed the Company's premium subscription based service packages. Users have the option to upgrade to a premium subscription based service to eliminate advertising.

During 2005 the Company made the strategic decision to sell its Hamburg, Germany based online media sales subsidiary, Ampira GmbH ("Ampira"), for approximately $244,000. The transaction was completed in March 2006.

In January 2006, the Company sold its paid web hosting asset to Hostopia Inc. ("Hostopia") for $1,132,000. The sale primarily included the existing customer contracts for web hosting, email and domain services. At closing, and under a separate agreement, the Company agreed to continue to market domain, email and hosting services under the FortuneCity brand name and refer customers to Hostopia in exchange for referral fees. The Company will continue to own and operate the FortuneCity.com website and seamlessly refer prospective paid web hosting customers to web pages controlled by Hostopia.

FortuneCity recorded a net loss of $460,679, or $(0.01) per share and $945,248, or $(0.02) per share, for the years ended December 31, 2005 and December 31, 2004, respectively. The decrease in the net loss of $484,568 was due to management's continued focus on reducing costs while maintaining revenue and developing the photo service business. Revenues from web services and media sales decreased 1% and 4%, respectively, in 2005 as compared to 2004.

RESULTS OF OPERATIONS

Revenues

Revenues for 2005 and 2004 primarily consisted of Media Sales, which represented 65% and 67% of total revenues, respectively. The table below contains a revenue breakdown by source for the years ended December 31, 2005 and 2004:

	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004
Media Sales - FortuneCity Sites	$ 1,164,409	$ 1,167,803
Media Sales - 3rd Party Sites	765,716	845,963
Web Services	973,832	983,742
Photo Services	74,249	-
Total revenues………………………………	$ 2,978,206	$ 2,997,508

Revenue for the year ended December 31, 2005 decreased 1% over the same period in 2004 to $2,978,206 from $2,997,508. This was due to decreases in revenue from both the media sales and web hosting businesses in 2005 of 4% and 1%, respectively. The decrease was partially offset by the introduction of new revenue from the photo printing services.

Web services revenues are derived from customers using the Company's servers to store and update their web sites. These revenues are recorded as earned over the period for which services are rendered. Revenues from the sale of top-level domains are recorded net of the domain costs and are recognized in the period they are purchased.

Media sales revenues are earned from short-term contracts from clients that market visitors to the Company's network of web sites and third party web publisher's sites.

Photo services revenue is derived form the sale of prints and club memberships. Membership revenues are recorded as earned over the period for which services are rendered.

Costs and Expenses

The following table highlights the costs and expenses for the years ended December 31, 2005 and 2004.

	For the Year Ended December 31, 2005	% of Revenues	For the Year Ended December 31, 2004	% of Revenues
Total revenues	$ 2,978,206	100%	$ 2,997,508	100%
Costs and expenses:				
Costs of revenues	1,418,031	48%	1,001,415	33%
Sales and marketing	709,516	24%	1,552,669	52%
Product development	646,233	22%	886,552	30%
General and administrative	790,069	27%	1,424,438	48%
Lease termination costs	-	0%	789,578	26%
Equity in loss of affiliate	-	0%	69,247	2%
Total costs and expenses	$ 3,563,849	120%	$ 5,723,899	191%

Costs of Revenues

The principal expenses included in cost of revenues are data center service charges, cost of bandwidth, outsourcing of web hosting services, costs of serving online advertisements, agency fees and payroll related costs.

The cost of revenues for the year ended December 31, 2005 increased 42% from $1,001,415 to $1,418,031, over the similar period in 2004, and increased as a percentage of total revenues from 33% to 48%. The increase in cost of revenues for the year ended December 31, 2005 was predominately attributable to the commencement of a Strategic Services Agreement with Hostopia Inc. to provide private labeled web hosting solution

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and related benefits, rent, insurance, advertising expenses and commissions.

The sales and marketing expenses for the year ended December 31, 2005 decreased from $1,552,669 to $709,516, or 54%, over the similar period in 2004 and decreased as a percentage of total revenues from 52% to 24%. The decrease in sales and marketing expenses for the year 2005 was primarily attributable to a 61% reduction in payroll and related expenses. This decrease in payroll and related expenses was directly related to the commencement of the Strategic Services Agreement with Hostopia that is reflected as a cost of revenue.

Product Development

Product development expenses include salaries and related costs associated with software development, testing and upgrading of the Company's network of web sites.

The product development expenses for the year ended December 31, 2005 decreased from $886,552 to $646,233, or 27%, over the similar period in 2004 and decreased as a percentage of total revenues from 30% to 22%. The decrease in product development expenses for the year 2005 and as a percentage of total revenues was predominately attributable to a 30% decrease in payroll and related expenses.

General and Administrative

General and administrative expenses include employee salaries and related costs, rent and maintenance, bad debt, professional services, non-cash compensation (benefit) expense related to stock options and other corporate expenses.

The general and administrative expenses for the year ended December 31, 2005 decreased from $1,424,438 to $790,069, or 45%, over the similar period in 2004 and decreased as a percentage of total revenues from 48% to 27%. The decrease in general and administrative expenses for the year 2005 was mainly attributable to a 49% decrease in payroll and related expenses and a non-cash compensation benefit.

Lease Termination Costs

In February 2004, the Company entered into an agreement with its former landlord that permitted the Company to terminate the lease prior to the expiration date. As a result of this agreement, the Company took a one-time charge of $789,578 to the consolidated statements of operations.

Equity in loss of affiliate

In 2004, the equity in loss of affiliate includes the Company's portion of the loss from Springboard Managed Hosting LLC ("Springboard").

Gain on Sale of Affiliate

In September 2004, the Company sold its equity interest in Springboard for $692,000 in cash. This sale resulted in a gain of $680,200.

Gain on Liquidation of Subsidiary

In October 2004, the Company entered into an agreement with a liquidator for full and final settlement of all claims capable of being brought against FortuneCity.co.uk Ltd. As a result of this settlement, the Company wrote off $1,020,587 of liabilities that were attributable to the inactive UK subsidiary resulting in a $1,020,587 gain.

Discontinued Operations

In December 2005, the Company decided to discontinue the operations of its Hamburg, Germany based online media sales subsidiary, Ampira GmbH ("Ampira"). Ampira's sales, reported in discontinued operations, for the years ended December 31, 2005 and December 31, 2004, were $816,276 and $884,282, respectively. Ampira's net income, reported in discontinued operations, for the years ended December 31, 2005 and 2004, was $119,707 and $69,278, respectively.

Liquidity and Capital Resources

The Company has incurred net losses and negative cash flows from operations since inception. The Company's ability to maintain its operations in the ordinary course of business is dependent on its ability to grow the online media sales business, to increase the number of club memberships and digital prints sold through its online photo sharing service and to seamlessly refer prospective paid web hosting customers under the web hosting marketing and licensing agreement with Hostopia Inc. ("Hostopia"). However, there is no assurance that the Company will be able to achieve its growth objectives.

The Company has primarily funded its losses to date with the proceeds of its March 1999 initial public offering, which raised approximately $87,000,000.

As of December 31, 2005 the Company had approximately $461,000 in cash, cash equivalents and short-term investments.

On January 31, 2006, the Company sold its paid web hosting assets to Hostopia for a contingent purchase price of $1,132,000, less total liabilities of $412,000, this results in potential cash proceeds of $720,000. The Company received a net payment of $151,400 at the closing.

On March 22, 2006, the Company sold the stock of Ampira for approximately $244,000 resulting in cash proceeds of $189,000. The balance of the purchase price in the amount of $55,000 will be paid in equal installments over a 10 month period.

Management believes the combination of the proceeds from the sale of its web hosting assets and Ampira, cash on-hand, its lower cost structure should be sufficient to sustain its operations in the near term. Management continues to reduce its monthly burn rate, primarily by reducing expenses. There is no assurance that the Company would not be faced with the prospect of raising additional financing in the future.

Summary of cash flows for the years ended December 31, 2005 and 2004:

	2005	2004
Cash used in operating activities	$ (1,131,576)	$ (1,168,319)
Cash (used in) provided by investing activities	(119,617)	536,821
Cash provided by financing activities	208,767	15,000

Cash used in operating activities primarily consists of the net loss adjusted for non-cash items such as depreciation and amortization, equity in losses of affiliates and other non-cash items, and the effect of changes in working capital and other activities. Cash used in operating activities in 2005 of $1,132,000 consisted primarily of a net loss of $460,000, $350,000 in non cash stock option compensation benefit and $290,000 used in working capital and other activities. Cash used in operating activities in 2004 of $1,168,000 consisted primarily of a net loss of $900,000 and $300,000 used in working capital and other activities.

Cash used by investing activities in 2005 of approximately $120,000 was primarily a result of the purchase of equipment of $87,000 and the net purchases of short-term investments of $40,000. Cash provided by investing activities in 2004 of approximately $537,000 was a result of proceeds from sale of affiliate of $692,000, primarily offset by fixed asset purchases of approximately $153,000. Capital expenditures have generally been comprised of purchases of computer hardware, software and server equipment and are currently expected to remain modest in 2006 as the Company continues to manage discretionary spending.

Cash provided by financing activities in 2005 of $209,000 was a result of net borrowings under a bank line of credit agreement of $167,000 and $42,000 as a result of proceeds from the exercise of stock options. Cash provided by financing activities in 2004 of $15,000 was due to proceeds from the exercise of stock options.

Employees

As of December 31, 2005 and 2004 the Company had 21 (of whom 10 were in sales and marketing and 8 were in product development) and 31 (of whom 14 were in sales and marketing and 11 were in product development) full-time employees, respectively. The remainder of the employees in both years was in operational support and administrative positions.

Board Member and Treasury Holdings

The share holdings of the Company's stock by board members and the Company at December 31, 2005 were as follows:

	Number of Shares	US$ Par Value	US$ Market Value (FWB)
Jeremy Metcalfe 2001 Settlement	20,569,853	$ 205,699	$ 2,530,092
Daniel W. Metcalfe	1,550,000	15,500	190,650
Peter Macnee	160,478	1,605	19,739
Alexander Mashinsky	-	-	-

FORTUNECITY.COM INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

DALESSIO, CASCIO & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS
14 PENN PLAZA, SUITE 2004
NEW YORK, N.Y. 10122

(212) 244-1270
FAX: (212) 244-1743

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
FortuneCity.com Inc.:

We have audited the accompanying consolidated balance sheets of FortuneCity.com Inc. (a Delaware corporation) and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' (deficit) equity and other comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FortuneCity.com Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses from operations, which resulted in negative working capital at December 31, 2005 and raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Dalessio, Cascio & Company, LLC

New York, New York
March 27, 2006

DALESSIO, CASCIO & COMPANY, LLC
Certified Public Accountants

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004
(in U.S. dollars)

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	$ 260,106	$ 1,301,040
Short-term investments - restricted	200,576	159,936
Accounts receivable, net of allowance for doubtful accounts of $50,000 and $35,000, respectively	464,694	243,166
Prepaid expenses and other current assets	30,559	29,465
Assets of discontinued operation	107,871	222,788
Total current assets	1,063,806	1,956,395
PROPERTY AND EQUIPMENT, net	186,558	131,923
OTHER ASSETS	87,083	87,083
Total assets	$ 1,337,447	$ 2,175,401
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
CURRENT LIABILITIES:		
Bank line of credit	$ 166,347	$ -
Accounts payable	585,839	559,244
Accrued expenses	183,506	190,400
Capital lease obligation	10,533	-
Other current liabilities	412,541	488,174
Liabilities of discontinued operation	111,192	124,572
Due to Hostopia	371,100	274,231
Total current liabilities	1,841,058	1,636,621
Deferred rent	61,539	75,472
Capital lease obligation	18,516	-
Total liabilities	1,921,113	1,712,093
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' (DEFICIT) EQUITY:		
Common stock; $.01 par value; 80,000,000 shares authorized; and 41,401,865 and 40,492,889 shares issued and outstanding, respectively	414,019	404,929
Additional paid-in capital	120,416,279	120,734,754
Accumulated deficit	(118,458,291)	(117,997,612)
Other comprehensive loss	(2,955,673)	(2,678,763)
Total stockholders' (deficit) equity	(583,666)	463,308
Total liabilities and stockholders' (deficit) equity	$ 1,337,447	$ 2,175,401

The accompanying notes are an integral part of these consolidated statements.

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(in U.S. dollars)

	2005	2004
REVENUES	$ 2,978,206	$ 2,997,508
COST OF REVENUES	1,418,031	1,001,415
Gross profit	1,560,175	1,996,093
OPERATING EXPENSES:		
Sales and marketing	709,516	1,552,669
Product development	646,233	886,552
General and administrative	790,069	1,424,438
Lease termination costs	-	789,578
Total operating expenses	2,145,818	4,653,237
Operating loss	(585,643)	(2,657,144)
INTEREST INCOME, net of interest expense of $5,596 and $5,520, respectively	5,257	11,078
Loss from continuing operations before impact of investments in affiliates and subsidiary	(580,386)	(2,646,066)
EQUITY IN LOSSES OF AFFILIATE	-	(69,247)
GAIN ON SALE OF AFFILIATE	-	680,200
GAIN ON LIQUIDATION OF SUBSIDIARY	-	1,020,587
Impact of investments in affiliates and subsidiary	-	1,631,540
Net loss from continuing operations	(580,386)	(1,014,526)
Earnings from discontinued operation	119,707	69,278
Net loss	$ (460,679)	$ (945,248)
PER SHARE AMOUNTS, BASIC AND DILUTED		
Net loss from continuing operations per share	$ (0.01)	$ (0.03)
Net loss per share	$ (0.01)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	41,119,332	40,365,472

The accompanying notes are an integral part of these consolidated statements.

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY AND OTHER COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(in U.S. dollars)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss *	Total
	Shares	Amount				
BALANCE, January 1, 2004	40,242,889	$ 402,429	$ 120,308,213	$(117,052,364)	$ (3,076,679)	$ 581,599
Foreign currency translation adjustment	-	-	-	-	397,916	397,916
Net loss	-	-	-	(945,248)	-	(945,248)
Total comprehensive loss						(547,332)
Exercise of stock options	250,000	2,500	12,500	-	-	15,000
Compensation due to repricing of stock options	-	-	414,041	-	-	414,041
BALANCE, December 31, 2004	40,492,889	$ 404,929	$ 120,734,754	$(117,997,612)	$ (2,678,763)	$ 463,308
Foreign currency translation adjustment	-	-	-	-	(276,910)	(276,910)
Net loss	-	-	-	(460,679)	-	(460,679)
Total comprehensive loss						(737,589)
Exercise of stock options	908,976	9,090	33,330	-	-	42,420
Compensation due to repricing of stock options	-	-	(351,805)	-	-	(351,805)
BALANCE, December 31, 2005	41,401,865	$ 414,019	$ 120,416,279	$(118,458,291)	$ (2,955,673)	$ (583,666)

* Compiled exclusively of foreign currency translation adjustment.

FORTUNECITY.COM INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(in U.S. dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (460,679)	$ (945,248)
Earnings from discontinued operation	$ (119,707)	$ (69,278)
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	65,315	114,480
Equity in losses of affiliate	-	69,247
Non cash stock option (benefit) compensation charge	(351,805)	414,041
Lease termination costs	-	436,773
Gain on sale of affiliate	-	(680,200)
Gain on liquidation of subsidiary	-	(1,020,587)
Unrealized foreign currency (loss) gains	(77,381)	236,264
Changes in operating assets and liabilities-		
Decrease (increase) in-		
Accounts receivable	(221,528)	(20,602)
Prepaid expenses and other current assets	(1,094)	38,640
Other assets	-	(83,214)
(Decrease) increase in-		
Accounts payable	26,172	381,433
Accrued expenses and other current liabilities	(65,170)	43,232
Due to Hostopia	96,868	-
Deferred rent	(13,936)	180,442
Net cash used in operating activities-continuing operations	(1,122,945)	(904,577)
Net cash used in operating activities-discontinued operation	(8,631)	(263,742)
Net cash used in operating activities	(1,131,576)	(1,168,319)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(86,765)	(153,443)
Proceeds from sale of affiliate	-	692,000
Payment of capital lease obligation	(4,136)	-
Purchases of short-term investments	(200,000)	(200,000)
Proceeds from maturity of short-term investments	159,360	198,264
Advance on sale of discontinued operation	11,924	-
Net cash (used in) provided by investing activities	(119,617)	536,821
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under bank line of credit	185,063	-
Payment of bank line of credit	(18,716)	-
Proceeds from exercising of stock options	42,420	15,000
Net cash provided by financing activities	208,767	15,000
EFFECTS OF FOREIGN EXCHANGE	(7,138)	(10,468)
Decrease in cash and cash equivalents	(1,049,564)	(626,966)
Cash and cash equivalents, beginning of year	1,377,235	2,004,201
Cash and cash equivalents, end of year	327,671	1,377,235
Less cash and cash equivalents from discontinued operation, end of year	67,565	76,195
Cash and cash equivalents of continuing operations, end of year	$ 260,106	$ 1,301,040
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 5,501	$ 5,449
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
Capital lease obligations entered into for property and equipment	$ 33,185	$ -

The accompanying notes are an integral part of these consolidated statements.

1. ORGANIZATION AND BUSINESS

FortuneCity.com Inc. and its subsidiaries ("FortuneCity" or the "Company") provide online web services and interactive media sales.

The Company provides a variety of online web services to small businesses and individuals that are primarily based in North America. The services are marketed through uniquely branded websites promoting each service and as part of the FortuneCity global web property.

Online Media Sales: FortuneCity's interactive media sales agency "Ampira Media", with sales staff located in New York, USA and Hamburg, Germany, leverages the Company's global Internet audience to generate advertising revenue. Advertising impressions and revenue are primarily generated on FortuneCity's largest web properties, specifically the FortuneCity home page service, the V3 domain redirect service, and MyPhotoAlbum, the online photo and video sharing service. In addition, Ampira Media represents and sells inventory and advertising solutions provided by third party web publishers, and also acts as an online advertising buyer for clients and traditional agencies.

Web Hosting: Customers are offered a variety of feature-rich service packages, including shared server web hosting, domain registration, Internet marketing services and web design services. Customers are billed a recurring subscription fee on a monthly, quarterly or annual basis for the Company's services. Subsequent to year end, the Company agreed to sell its paid web hosting user base to the company that was providing FortuneCity a private-labeled wholesale hosting and application service. In connection with the sale, the Company agreed to a marketing services agreement with the purchaser (Note 15).

Photo Services: MyPhotoAlbum provides registered users the ability to store, share and print digital photos and videos. The service is recognized for its extensive customized offerings allowing users to create personalized online photo scrapbooks. The Company generates revenue from advertising, sponsorships, photo printing, photo greeting cards and subscriptions to the MyPhotoAlbum premium service Club. The printing and card services are offered through a private labeled fulfillment partnership with a professional photo processing lab that prints, packages and mails each order directly to the MyPhotoAlbum customer.

Online Games: HotGames is an online games community committed to entertaining and connecting people through games. Players can play single or multi-player games of skill such as solitaire, backgammon and billiards, and compete in tournaments against other online players. Players are able to chat with other players while playing the same game and earn affinity points which can be traded for prizes. Multi-player games enable users to customize the game options, create a table, invite a friend, establish buddy lists and earn points and a rating. The Company generates revenue from online advertising and sponsorships on the HotGames.com website, in addition to player subscription fees and a revenue share of games purchased and downloaded by users.

The Company offers free trial web services across all of its brands as an efficient customer acquisition strategy. All free basic web services generate revenue through the sale of advertising campaigns on the Internet traffic created by its customers and others viewing those web pages. Users are continually marketed the Company's premium subscription based service packages. Users have the option to upgrade to a premium subscription based service to eliminate advertising. The Company's primary web services can be located at:

www.FortuneCity.com
www.AmpiraMedia.com
www.MyPhotoAlbum.com
www.HotGames.com

Liquidity

The Company has primarily funded its losses to date with the proceeds of its March 1999 initial public offering, which raised approximately $87 million.

In September 2004, FortuneCity sold its interest in North Carolina based data center Springboard Managed Hosting. The proceeds from the sale totaled $692,000 (Note 13).

In 2006, the Company sold certain operating assets and liabilities (see Notes 3 and 15) in order to sustain its core business activities and allow it to focus on fewer operating activities. While management believes the combination of proceeds from the sale of certain assets, cash on-hand, its lower cost structure should be sufficient to sustain its operations in the near term, there is no assurance that the Company would not be faced with the prospect of raising additional financing in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements, which were prepared using accounting principles generally accepted in the United States (''U.S. GAAP''), include the accounts of FortuneCity and its wholly owned subsidiaries and are presented in U.S. dollars. All significant intercompany accounts and transactions have been eliminated.

The Company accounted for its investments in less than majority-owned entities using the equity method of accounting.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to the allowance for doubtful accounts, income taxes, contingencies and allocation of revenues by type for web services. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Short-Term Investments

The Company invests its excess cash in debt instruments of the U.S. Government and its agencies and bank certificates of deposit. Securities with original maturities of greater than three months and maturing within twelve months from the balance sheet date are considered short-term investments.

Fair Value of Financial Instruments

All of the Company's financial instruments are comprised of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. Their carrying amounts approximate fair value due to the short-term maturity of these instruments.

Unbilled Accounts Receivable

At December 31, 2005 and 2004, accounts receivable includes $405,717 and $173,807, respectively, of unbilled accounts receivable, which are a normal part of the Company's internet advertising business as some receivables are normally invoiced in the month following the completion of the earnings process.

Allowance for Doubtful Accounts

The Company determines its allowance for doubtful accounts based on the evaluation of the aging of its accounts receivable and a customer-by-customer analysis of high-risk customers. The Company's reserves contemplate its historical loss rate on receivables, specific customer situations and the economic environments in which the Company operates.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets, ranging from three to five years. Leasehold improvements and equipment under capital leases are amortized over the shorter of their estimated useful lives or the life of the lease. Useful lives are evaluated regularly by management in order to determine recoverability in light of current technological conditions. Expenditures for maintenance and repairs are charged to expense as incurred while expenditures for renewals and improvements are capitalized. Upon the sale or retirement of property and equipment, the accounts are relieved of the cost and the related accumulated depreciation or amortization, with any resulting gain or loss included in the consolidated statements of operations.

Computation of Net Loss Per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share assumes the issuance of the net incremental shares from stock options and warrants at the later of the beginning of the year or the date of issue using the treasury stock method. Common equivalent shares are excluded from the calculation if their effect is antidilutive.

Diluted net loss per share for the years ended December 31, 2005 and 2004 does not include the effect of options and warrants to purchase shares of common stock as their inclusion would be antidilutive.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which applies the liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are determined based on the differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates. These differences are primarily due to bad debt, depreciation on fixed assets, amortization of intangible assets, deferred compensation and deferred rent expense. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Revenue Recognition

Advertising

The Company's advertising revenues are derived principally from the sale of short-term online advertisements on the Company's network of web sites. The duration of the Company's advertising commitments generally ranged from one week to one month. Sponsorship advertising contracts typically have longer terms and involve more integration with the Company's network of sites, such as co-branded pages and placement of text links that provide users with direct links to the advertiser's web site.

Advertising revenues on both online advertisement contracts are recognized ratably over the period in which the advertisement is displayed, provided that no significant Company obligations remain at the end of a period and collection of the resulting receivable is probable. Company obligations typically include guarantees of minimum number of "impressions," or times that an advertisement appears in pages viewed by users of the Company's network of sites. To the extent minimum guaranteed impressions are not met, the Company defers recognition of the corresponding revenues related to the undelivered impressions until the remaining guaranteed impression levels are achieved.

The majority of the Company's advertising revenues are derived from direct advertising sales. Advertising revenues have been recorded net of agency fees. In 2004, the advertising revenues were recorded at gross and any corresponding agency fees were reflected in costs of revenues. The consolidated statement of operations for the year ended December 31, 2004 has been reclassified to conform to the 2005 presentation.

Deferred Revenue

Deferred revenue is primarily comprised of billings or collections in excess of recognized revenue relating to advertising contracts and annual club membership paid in advance for MyPhotoAlbum. At December 31, 2005 and 2004, deferred revenue was $161,494 and $137,747, respectively, and was included in other current liabilities.

Web Hosting Services

Revenues from web hosting services primarily consist of recurring subscription fees billed monthly, quarterly or annually. Revenues from web hosting services are recognized over the life of the service contract.

Domain registration revenues, consisting primarily of registration fees charged to customers for domain name registration services, are recorded net of fees paid to register the domains in the period in which the transaction occurs.

Photo Services

Revenues from photo services primarily consist of print sales and club memberships. Club members receive print discounts, unlimited photo and video storage, personalization features and no advertising on their albums.

Due to Hostopia

As of December 31, 2005 and 2004, the caption on the accompanying consolidated balance sheets Due to Hostopia amounted to $371,100 and $274,231, respectively which is comprised of deferred revenue related to annual payments related to hosting services and amounts owed under the service agreement. In January 2006, the Company sold its paid hosting customer service contracts to Hostopia Inc. ("Hostopia"). In connection with the sale, Hostopia has agreed to offset the deferred revenue and amounts owed under the service agreement against the monthly purchase price payments (Note 15). In 2004, the deferred revenue relating to hosting services were included in other current liabilities and no amounts were owed under the service agreement at December 31, 2004. The consolidated balance sheet at December 31, 2004 has been reclassified to conform with the 2005 presentation.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2005 and 2004, such costs were $141,228 and $162,810, respectively.

Product Development

Product development costs are expensed as incurred. Statement of Position 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use,” requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. Based upon the Company’s product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release have been insignificant.

Concentration of Credit Risk

Financial instruments which subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. The Company performs periodic evaluations of the relative credit standing of these institutions. From time to time, the Company’s cash balances with any financial institution may exceed Federal Deposit Insurance Corporation limits.

The Company’s customers are concentrated in the United States and Germany. The Company performs ongoing credit evaluations, generally does not require collateral.

The Company performs credit card authorizations of its customers prior to establishing their hosting account. Credit risk is limited due to the collection of payments in advance or at the time of the transaction and the Company’s large number of diversified customers.

For the year ended December 31, 2005 one customer accounted for 17% of total revenues. For the year ended December 31, 2004, two customers accounted for 33% and 18% of total revenues.

At December 31, 2005 and 2004, two customers accounted for approximately 10% and 10%, and 20% and 11% of the Company’s gross accounts receivable, respectively.

Risks Associated with Outsourcing Key Services

Certain key services that meet the Company's requirements are provided by a single supplier. The Company has contracted SunGard Availability Services ("SunGard") to provide a secure hosted environment for a majority of the Company's hardware infrastructure including a managed data storage and backup solution (Note 10). The Company has contracted Hostopia.com, Inc. ("Hostopia") to provide service to its paid shared server hosting, email and domain management customers (see Notes 10 and 15). The inability of SunGard and or Hostopia to supply these services could result in disruption of the Company’s business, which in turn could have a material adverse effect on the Company's business, financial condition, and results of operations.

401(k) Plan

The Company has a contributory 401(k) employee benefits plan covering substantially all of its employees. The Company made no contribution to the plan for the years ended December 31, 2005 and 2004.

Foreign Currency

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates as of the balance sheet date. Revenues and expenses are translated at the average of the rates prevailing during the year. Adjustments from translating foreign currency financial statements are reported in other comprehensive income (loss) as a separate component of stockholders' (deficit) equity. The currency of the country of domicile is the functional currency of each of the Company's subsidiaries.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Standards ("SFAS") No. 123R, "Share Based Payment" ("SFAS 123R"). SFAS 123R is a revision of SFAS No. 123, which addresses financial accounting and reporting for costs associated with stock-based compensation. SFAS 123 addresses all forms of share-based payment ("SBP") awards, including shares issued under the employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS 123R requires the Company to adopt the new accounting provisions beginning in the first interim or annual reporting period that begins after December 15, 2005, and applies to all outstanding and unvested SBP awards at the Company's adoption date. The Company is allowed to select one of the three alternative transition methods – each having different reporting implications. The Company has not completed its evaluation or determined the impact of adopting SFAS 123R. The Company expects the adoption to have a significant reduction of earnings.

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections" ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20, "Accounting Changes" and SFAS No. 3 "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to the periods' financial statements of changes in accounting principle, unless it is impracticable to determine the period-specific effects SFAS 154 requires the Company to adopt the new accounting provisions for accounting changes made in fiscal years beginning after December 15, 2005. At the current time, there are no changes in accounting principle that will have a material effect on the consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. DISCONTINUED OPERATION

In December 2005, the Company decided to sell its Hamburg, Germany based online media sales subsidiary, Ampira GmbH ("Ampira") in order to focus its business activities in the North American market.

On March 22, 2006, the Company sold the stock of Ampira for approximately $244,000. In December 2005, the Company received $12,000 upon signing of the letter intent. At the closing the Company received approximately $177,000 for aggregate proceeds of $189,000. The balance of the purchase price ($55,000) will be paid in equal installments over a 10 month period commencing on April 22, 2006.

Ampira's sales, reported in discontinued operation, for the years ended December 31, 2005 and December 31, 2004, were $816,276 and $884,282, respectively. Ampira's net income, reported in discontinued operation, for the years ended December 31, 2005 and 2004, was $119,707 and $69,278, respectively. Prior year financial statements for 2004 have been restated to present the operations of Ampira as a discontinued operation.

The assets and liabilities of the discontinued operation are presented separately under the captions "Assets of discontinued operation" and "Liabilities of discontinued operation," respectively, in the accompanying consolidated balance sheets at December 31, 2005 and 2004, and consist of the following:

	2005	2004
Assets of discontinued operation:		
Cash	$ 67,565	$ 76,195
Accounts receivable	23,885	123,905
Other assets	16,421	22,688
Total assets	$ 107,871	$ 222,788
Liabilities of discontinued operation:		
Accounts payable	$ 66,554	$ 33,084
Accrued expenses	22,075	68,220
Other current liabilities	22,563	23,268
Total liabilities	$ 111,192	$ 124,572

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2005 and 2004 consist of the following:

	2005	2004
Computer equipment	$ 173,245	$ 64,017
Office equipment	84,229	84,229
Leasehold improvements	12,038	12,038
Computer software	14,457	3,735
	283,969	164,019
Less: Accumulated depreciation and amortization	(97,411)	(32,096)
	$ 186,558	$ 131,923

Depreciation and amortization expense was $65,315 and $114,480 for the years ended December 31, 2005 and 2004, respectively.

In February 2004, the Company entered into an agreement with a former landlord to terminate a lease prior to the expiration date. As part of this agreement, the Company transferred fixed assets and leasehold improvements with a carrying value of $1,104,108 (Note 12).

5. INCOME TAXES

The primary components of temporary differences which give rise to deferred taxes are as follows:

	December 31,	
	2005	2004
Deferred tax asset:		
Net operating loss carryforward	$ 42,774,000	$ 42,372,000
Allowance for doubtful accounts	20,000	14,000
Depreciation and amortization	1,004,000	1,107,000
Deferred rent	25,000	31,000
Deferred compensation	247,000	388,000
Accruals	18,000	-
Deferred tax assets before valuation allowance	44,088,000	43,912,000
Less: valuation allowance	(44,088,000)	(43,912,000)
Net deferred tax assets	$ -	$ -

As a result of the Company's history of operating losses, management believes a valuation allowance for the entire net deferred tax asset, after considering deferred tax liabilities, is required. As of December 31, 2005 and 2004, the Company had estimated net operating loss carryforwards of approximately $106,934,000 and $105,930,000, respectively.

The net operating loss carryforwards originated in the following jurisdictions:

	December 31,	
	2005	2004
United States	$ 83,490,396	$ 82,613,363
Germany	7,440,039	7,371,034
The Netherlands	12,189,216	12,140,181
Other	3,814,094	3,805,289
	$ 106,933,745	$ 105,929,867

As of December 31, 2005 U.S. loss carryforwards expire through 2025. The German and The Netherlands loss carryforwards have no expiration.

6. STOCKHOLDERS' (DEFICIT) EQUITY

Warrant

In July 2003, the Company entered into an equity line of credit agreement with a Partnership controlled by the Company's major stockholder that expired on December 31, 2005.

In return for this funding commitment the Company agreed to issue the Partnership a four-year warrant to purchase up to 10,000,000 shares of common stock at a price of $.12 cents per share. The warrant issued in connection with the equity line of credit agreement includes certain antidilution provisions in the event shares are issued below the warrant exercise price of $.12 cents. As of December 31, 2005, no warrants have been exercised.

Exercising of Employee Stock Options

For the years ended December 31, 2005 and 2004, the Company issued 908,976 and 250,000 shares of its common stock for cash proceeds of $42,420 and $15,000, respectively.

Preferred Stock

Effective March 3, 1999 the Company's Board of Directors authorized 10,000,000 shares of preferred stock to be issued. As of December 31, 2005 these shares have not been issued and the Company currently has no plans to issue the shares.

7. STOCK OPTION PLAN

In May 1998, the Company adopted the 1998 Stock Option Plan, as amended (the ''Plan''), which provides for the issuance of up to 23,600,000 shares for both non-statutory and incentive stock options to employees, officers, consultants and non-employee directors. Most options shall be exercisable for a period of up to ten years from the date of grant at no less than 100% of the fair market value of the Company's common stock on the date of grant. The term of such options shall be five years from the date of grant for stockholders who own more than ten percent of the voting power of all classes of stock of the Company at the date of grant. At December 31, 2005 and 2004, 10,465,999 and 9,989,999 options were available for issuance, respectively.

The Company accounts for stock options granted to employees under APB Opinion No. 25 "Accounting for Stock Issued to Employees," ("APB 25") under which no compensation cost has been recognized for stock options granted, expect for shares that have been repriced. Had compensation costs for stock options been determined consistent with SFAS No. 123 "Accounting for Stock-Based Compensation," (the fair value method) the Company's net loss and loss per share would have been the following pro forma amounts:

	2005	2004
Net loss, as reported	$ (460,679)	$ (945,248)
Net loss, fair value method	(462,586)	(1,704,699)
Stock based compensation benefit (cost) included in the determination of net loss as reported	351,805	(414,041)
Stock based compensation benefit (cost) that would have been included in the determination of net loss under the fair value method	349,898	(1,173,492)
Basic and diluted net loss per share, as reported	$ (0.01)	$ (0.02)
Basic and diluted net loss per share, fair value method	$ (0.01)	$ (0.04)

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts, and additional awards in future years are anticipated.

The following summarizes the activity in options:

	Options	
	Shares	Exercise Price
Balance, December 31, 2003	15,056,131	$ 0.06
Granted	58,000	0.06 - 0.23
Exercised	(250,000)	0.06
Canceled	(1,789,450)	0.06
Balance, December 31, 2004	13,074,681	$ 0.06
Granted	350,000	0.13 - 0.15
Exercised	(908,976)	0.06
Canceled	(624,024)	0.06
Balance, December 31, 2005	11,891,681	$ 0.06

On June 1, 2003 the Company repriced all outstanding options to the then current market price of $.06 and all shares became vested. These options originally had exercise prices ranging from $.07 to $.47. FASB Interpretation No. 44 " Accounting for Certain Transactions involving Stock Compensation requires that stock options that have been repriced shall be accounted for as variable from the date of the modification to the date the option is exercised, forfeited or expires unexercised. For the years ended December 31, 2005 and 2004, the Company recorded compensation (benefit) expense in the amount of ($351,805) and $414,041, respectively in connection with the repricing.

At December 31, 2005 and 2004, 11,508,181 and 13,074,681 shares were exercisable, respectively.

The fair value of each option grant is estimated on the date of grant using the fair value option pricing model with the following weighted average assumptions used for grants in 2005: risk-free interest rate of approximately 4.18%; no expected dividend yield, expected lives of 5 years, volatility of 176%.

The following table summarizes information about stock options outstanding at December 31, 2005:

Range of Exercise Prices	Number Outstanding at December 31, 2005	Remaining Contractual Life	Weighted Average Exercise Price	Weighted Average Market Price
$ 0.06 - 0.23	11,891,681	5.68 years	$ 0.06	$ 0.06

8. BANK LINE OF CREDIT

In July 2005, the Company entered into a revolving line of credit agreement with a bank that allows the Company to borrow up to $200,000. The line of credit is fully secured by a certificate of deposit classified as short-term investments-restricted on the accompanying balance sheet as of December 31, 2005. Borrowings under the line of credit bear interest at 8%. The outstanding balance was $166,347 at December 31, 2005.

9. CAPITAL LEASE OBLIGATION

In 2005, the Company entered in an equipment lease that is classified as a capital lease obligation.

The future minimum lease payments required under the capital lease obligation and the present value of the net minimum lease payments as of December 31, 2005, are as follows:

Year ending December 31,	Amount
2006	$ 12,496
2007	12,496
2008	7,290
Total minimum lease payments	32,282
Less: Amount representing interest	(3,233)
Present value of minimum lease payments	29,049
Less: Current maturities of capital lease payments	(10,533)
Long term capital lease payments	$ 18,516

Assets recorded under the capital lease obligation are included in property and equipment and consist of the following as of December 31, 2005:

	2005
Computer equipment	$ 33,185
Less: Accumulated amortization	(4,609)
	$ 28,576

10. COMMITMENTS AND CONTINGENCIES

Leases

In February 2004 the Company entered into an agreement with its landlord in New York to terminate its lease effective March 4, 2004 and entered into a new lease through May 2010. The Company's minimum lease obligations under the lease is as follows:

Year ending December 31,	Amount
2006	209,000
2007	209,000
2008	209,000
2009	209,000
2010	87,000
Total minimum lease payments	$ 923,000

Rent expense for the years ended December 31, 2005 and 2004 was $231,301 and $273,989, respectively.

The Company's old office lease in NY included rent escalations. The new office lease includes a rent abatement for the period March 1, 2004 through July 31, 2004. The deferred rent liability on the accompanying consolidated balance sheets represents the difference between the total rent payments made and the average monthly obligations over the life of the leases. The new lease requires a security deposit in the amount of $87,083 which is included in other assets on the consolidated balance sheet at December 31, 2005 and 2004. The lease has a provision to reduce this deposit to $69,667 on March 1, 2006 and to $52,250 on March 1, 2008.

Master Services Agreement

In March 2004, the Company entered into an agreement with SunGard Availability Services ("SunGard") to develop, implement, test and manage a Managed Network Attached Storage Service. The agreement is for 27 months beginning in May 2004 and requires the Company to pay monthly recurring charges for a secure hosted environment for a majority of the Company's hardware infrastructure including a managed data storage and backup solution. In 2005, the company renegotiated the agreement to extend the term through November 2007. The costs associated with this agreement amounted to $497,016 and $235,919 for the years ended December 31, 2005 and 2004, respectively, and is included in the cost of revenues in the Company's consolidated statements of operations.

Strategic Services Agreement

In November 2004, the Company entered into an agreement with Hostopia.com, Inc. (Hostopia) to provide a private labeled web hosting solution. Under the agreement, Hostopia provides the web hosting, domain and email services, along with customer support for the Company's FortuneCity.com paid hosting subscribers. The agreement is for 36 months beginning in January 2005 and requires the Company to pay monthly recurring charges for the services provided to FortuneCity end users. The costs associated with this agreement amount to $410,303 for the year ended December 31, 2005 and is included in the cost of revenues in the Company's consolidated statements of operations. In January 2006, the Company agreed to sell its paid hosting customers to Hostopia (Note 15). As part of the sale, this agreement with Hostopia was terminated, and all associated termination fees were waived.

Contingencies

From time to time, the Company has been party to various litigation and administrative proceedings relating to claims arising from its operations in the normal course of business. Management believes that the resolution of these matters will not have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

11. OTHER CURRENT LIABILITIES

At December 31, 2005 and 2004, Other Current Liabilities include approximately $198,000 and $227,000, respectively of liabilities relating to inactive subsidiaries. These liabilities will be paid or credited to income when these subsidiaries are dissolved. In 2004, the Company liquidated its UK subsidiary (Note 13) resulting in a reduction of these liabilities by approximately $1 million.

12. LEASE TERMINATION COSTS

On February 24, 2004 the Company entered into an agreement with its landlord in New York that permitted the Company to terminate the Lease before the expiration date (April 30, 2009). In consideration for the early termination of the lease the Company paid cash in the amount of $228,000 and transferred fixed assets to the landlord valued at $1,104,108 for total consideration of $1,332,308.

The loss on termination of the lease for the year ended December 31, 2004 consists of the following:

Cash and asset consideration paid	$ 1,332,308
Real estate commissions	124,414
Deferred rent liability written off	(667,144)
Loss on termination of lease	$ 789,578

13. GAIN ON SALE OF AFFILIATE

In August 2001, the Company acquired a 12% interest in Springboard Managed Hosting, LLC (Springboard"), a company engaged in managed services and data center operations, for $200,000. In September 2004, the Company sold its equity interest in Springboard for cash proceeds of $692,000. A gain of $680,200, as detailed below was recorded in the consolidated statement of operations:

Cash consideration received	$	692,000
Original cash investment		(200,000)
Equity loss in investment for 2001 through 2004		188,200
Gain on sale of affiliate	$	680,200

Springboard provided data center services to the Company for $-0- and $221,754, for the years ended December 31, 2005 and 2004, respectively. These expenses were included in the cost of revenues in the Company's consolidated statement of operations.

14. GAIN ON LIQUIDATION OF SUBSIDIARY

In October 2004, the Company paid a court appointed liquidator of FortuneCity.co.uk Limited in the amount of $13,400 in connection with a liquidation agreement. The liquidator accepted the consideration as full and final settlement of all claims capable of being brought against the Company. Accordingly, the Company has written off the liabilities associated with the UK subsidiary resulting in a gain in the amount of $1,020,587 for the year ended December 31, 2004.

15. SUBSEQUENT EVENTS

Sale of Asset

On January 31, 2006, the Company sold its paid web hosting assets to Hostopia Inc. The paid web hosting assets consists of existing service contracts with customers. The contingent purchase price is $1,132,000 less total liabilities of $412,000 resulting in potential cash proceeds of $720,000. The total liabilities include amounts owed from the prior wholesale service agreement and deferred revenue as of January 31, 2006. The Company received a net payment of $151,400 at the closing.

The remainder of the contingent purchase price will be paid monthly. The computation will be based on revenues that are generated from customers of the Company that had entered into a service agreement with the Company prior to the closing date for web hosting services, and continue to pay for such services after closing ("continuing revenues"), times a purchase price payment percentage as defined in the agreement. Hostopia has agreed to assume the deferred revenue for the paid web hosting assets as of January 31, 2006.

Hostopia will offset the deferred revenue liability and an outstanding accounts payable balance as of January 31, 2006 against the purchase price payments. The monthly payment of the total liabilities will be computed by taking the continuing revenues multiplied by 50% minus the purchase price payment percentage. The purchase agreement will continue until the purchase price of $1,132,000 is paid or when there are no longer continuing revenues. In the event Hostopia does not generate sufficient continuing revenues to pay the remaining balance of the outstanding liabilities, the Company is obligated to pay the outstanding debt.

As of January 31, 2006, the Company entered into a separate marketing and licensing agreement with Hostopia for the period February 1, 2006 through January 31, 2008 with an option to extend for an additional year. The Company has agreed to continue to market domain, email and hosting services under the FortuneCity brand name and refer customers to Hostopia in exchange for referral fees. The Company will continue to own and operate the FortuneCity.com website and seamlessly refer prospective paid web hosting customers to web pages maintained by Hostopia. This will have an impact on the amount of new business obtained for Hostopia which accordingly will affect the amount of referral fees generated for the Company. The referral fee will be paid on new customers that have entered into contracts subsequent to January 31, 2006, as defined in the marketing and licensing agreement. The Company expects the cash flow from the referral fees to match the net revenues earned for the year ended December 31, 2005.

SHAREHOLDER INFORMATION

FortuneCity.com Inc.
322 8th Avenue, 11th Floor
New York, NY 10001

Peter Macnee, President and CEO, peter@corp.fortunecity.com

Thomas Duhamel, Controller, tduhamel@corp.fortunecity.com

For investor matters contact:

FortuneCity.com Inc.
Investor Relations
Email: investor-relations@corp.fortunecity.com

FortuneCity